

GARDEN SQUARE *Fazette*



South East Transit Busway works adjacent to Garden Square Office Park



**PROPERTY FUNDS
AUSTRALIA LIMITED**

Year 2000 Compliance, Tax Reform, Managed Investments Act

Year 2000 Compliance

The three one-off transitional and compliance issues that kept the banking and finance and managed funds industries busy throughout 1999 has now been reduced to two. The Year 2000 (Y2K) compliance issue appears to have been addressed effectively across the board and it seems that the information technology systems of those sectors were successfully upgraded during the lead up to 2000 and were able to cope with the change of millennium.

It will probably never be known whether there was value in the cost to Australian businesses, governments and individuals of the extensive work that was done to ensure Y2K compliance (estimated to be \$12 billion). In many instances expenditure that would ultimately have been required at a future date was brought forward and therefore presumably investors, depositors, superannuates, insurance policy holders and users of government services can reasonably expect that the delivery of financial and government services into the future will not be affected by Y2K compliance problems.

Certainly the work that was done on PFA's systems during 1999 to ensure that they were Y2K compliant was effective and there has been a seamless transition from the 1999 year to the year 2000 in respect of this aspect of our operations.

Taxation Reform

Since our last Investor Update the proposed introduction of a Goods and Services Tax (GST) has been through the legislative process and is to be operative from 1 July this year.

The Australian Taxation Office is currently preparing and issuing the rulings that will determine the application of the tax in respect of the thousands of specific business issues that require clarification prior to 1 July.

Issues that relate to property ownership that have not been addressed at the date of this report include how the GST will apply to a range of local government rates and taxes and State government taxes such as stamp duty. The tax will progressively apply to certain rents, outgoing, contributions and other receipts of the Garden Square Joint Investment (the Fund).

There are special transitional provisions which defer the application of GST on certain supplies, depending on such factors as when tenancy leases were entered into, the timing of market rent reviews, the presence of a GST review clause in leases and whether the recipient is entitled to an input tax credit.

The Fund's ability to recover or be compensated for the costs of the GST depends on the provisions of tenancy leases and the valuation process.

The Manager's legal and tax advisers have considered the provisions of the current leases at Garden Square Office Park (the Property) and the application of GST to those contracts. Those advisers are of the view that the GST impact on distributions from the Fund should be minimal.

To assist in making the GST fundamentally cashflow neutral, any expenditure that the Fund incurs (which includes a GST component) will entitle it to an input tax credit.

The Manager will be responsible for the registration and lodgment of GST returns for the Fund.

Review of Business Taxation

The second part of the "Review of Business Taxation" that was prepared by the Federal Government appointed Ralph Committee was released in late September and the issues contained in it are currently being addressed by the parties affected by its recommendations including the Government.

The Ralph Committee's recommendations include the following:

- Certain investment trusts may be taxed as corporations;

It appears that whilst the issue has not yet been legislated that private trusts and trusts that are not classified

as "Collective Investment Schemes" will be taxed as corporations (and receive franking credits for any tax that is paid) but trusts that:-

- distribute all of their taxable income;
- are classified as Collective Investment Schemes; and
- carry on an eligible investment business,

will continue not to be taxed as entities but their distributed income will be assessable in the hands of investors (as it currently is). The important issue for investors in the Fund is whether or not it will be classified as a Collective Investment Scheme. The definition of a Collective Investment Scheme is currently being discussed between representatives of the managed funds industry, their legal and accounting advisers and government.

- For capital gains tax purposes there will be no consumer price indexation of the cost base of any asset or investment acquired after 1 October, 1999.
- It is proposed that accelerated depreciation allowances for such items as plant and equipment in investment properties be replaced with "effective life" rates. This will reduce the percentage of tax advantaged income that is distributed to investors in the Fund.

Already legislated changes to the Income Tax Assessment Act have reduced the rates of personal income tax from 1 July, 2000 and increased the threshold at which the higher marginal rates of taxation apply. These two measures are designed to compensate tax payers for the introduction of the GST and will also be an offset for the reduction in tax advantaged income distributed to investors in the Fund

because of the proposed changes to depreciation rates.

We expect that the tax issues relating to trusts will be clarified by the middle of this year and will advise you of what the ongoing situation in respect of the Fund will be at that time.

Managed Investment Act (MIA)

As advised to you in the August Investor Update whilst the transitional period for the MIA finishes on 30 June, 2000 it will have no impact on investors in the Garden Square Joint Investment as the Australian Securities and Investments Commission exempted existing fixed term property entities from compliance with the MIA until at least June, 2003 which at the time that commission will reassess the exemption.



New Garden City Bus Interchange

The Garden Square Office Park (the Property) is ideally located and the following aspects of it greatly enhance its attractiveness to the marketplace:-

- close proximity to services that are important to management and staff of tenants such as food and shopping, banking and child care;
- close proximity to public transport and in particular the Garden City Shopping Centre bus station;
- cheaper car parking rates than central business district and inner city locations;

- high visibility from the South East Freeway and Kessels Road.

The Upper Mt Gravatt business precinct is the largest of Brisbane's four designated business centres.

The highest demand for commercial office space from Brisbane is from tenants that require between 200m² and 400m² of space. Suites in this range accounted for 35% of all new leases written in greater Brisbane in the 12 months to 30 June, 1999. However, whilst government tenancies frequently have an area well in excess of that

space range and Garden Square has a good representation of State government tenancies, there is now an increasing demand for larger tenancies outside the central business district from the private sector.

Whilst Garden Square does not have the space available to accommodate this demand at the present time, its large floor plates mean that it is well positioned to take advantage of the demand for these larger areas if it has available space in the future.

Garden Square *Update*



What's happening at Garden City Shopping Centre and Surrounds



Garden City Town Square

Garden City Shopping Centre's new Town Square has been trading since December, 1999. It comprises a number of cafes and restaurants and interconnects with the 16 screen Birch Carroll and Coyle Cinema Complex which is located directly across the road from Garden Square.

The construction of the South East Transit Busway that will form a two lane express busway adjacent to the South East Freeway and adjoin the western boundary of Garden Square is well advanced.

As these two dedicated bus lanes are approximately eight metres below the level of the Garden Square lower ground car park a contiguous pile pre-cast concrete retaining wall is being constructed along that boundary of the Property.

It is expected that the busway will form a viable and faster alternative for commuters travelling to the Brisbane CBD during peak hour. The busway is scheduled to be completed in mid-2001.

The contract for the busway includes a new reinforced concrete bike/walking path and new fence that will enhance the attractiveness of the western boundary of the Property.

Changing Your Bank Details Or Moving

Don't forget to let us know

To ensure that you keep receiving your monthly income distributions don't forget to advise us if you change your bank account details in order that the electronic credit distribution system does not reject the transfer. Likewise, if you are changing your mailing address (as shown on the Syndicate or Trust Registers) we need to be notified.

Any changes need to be notified to us in writing and signed by the applicant/s who signed the original application form.

Capital Works Program

Completed Works

- The upgrade of specific air conditioning plant and associated control equipment;
- The completion of extensive upgrade of the drainage system for the lower ground car park;
- An upgrade of the building's access control system including the car park.

Current Works

Alliance S.O.F. Pty Ltd was the successful tenderer for the construction and improvement works program that is currently underway and includes the following elements:-

- The construction of a substantial street frontage covered walkway at the pedestrian entry point for the property;
- A re-landscaping of the street frontage of the property that will improve the view lines to it from the street and the Garden City Shopping Centre;
- An upgrade of the lift foyers, lift interiors, signage, car park, lobby and external lighting.

Future Works

A specialist consulting engineer has been retained to audit the property's mechanical, fire, hydraulic, electrical and mechanical services and a services specification has been drafted and adopted. The capital works involved in the implementation of that specification will be put to tender in the first quarter of this year.

Property Revaluation

Garden Square is scheduled for revaluation in the second quarter of this calendar year. Investors will be advised of the updated valuation in the annual report of the Fund.

Income Distribution Program

Distributions to investors in the Garden Square Joint Investment continue to be in line with those forecast in the Prospectus.

Tenancy Update

Renewed Tenancies

- DEVTR (State Government)
- Kedcorp Pty Ltd

Expiring Tenancy

- Regional Health (State Government)

Completed Rent Review

- QBuild (State Government)

Current Rent Review

- Coles Myer Limited



Establishment of New Fund – The Capital Collection

We are pleased to advise the establishment of a new PFA managed fund, The Capital Collection – Diverse Sector Fund. This fund joins The Metropolitan Collection and the Garden Square Joint Investment and gives the PFA stable of funds with total assets of \$130M.

The Capital Collection acquired The Post Office Square (Brisbane) and Homeworld Centre (Canberra) properties for a total of \$73.34M in December, 1999.

There is Manager's stock available in The Capital Collection and investors in the Garden Square Joint Investment who would like information about that fund should contact Bronwyn Risk or their broker or adviser.



Peter Stephenson

New Appointment

PFA are pleased to announce the appointment of Peter Stephenson as Asset Manager for the Company. Peter will take over from Matthew Madsen (as previously profiled) who will assume the role of Acquisitions Manager. Peter will be responsible for the asset management of the six assets of the three funds that comprise the PFA stable. He comes with a breadth of experience having worked for the past 17 years for a major international real estate agency. His roles with that company have included that of centre manager for a number of major shopping centres and asset manager for a range of retail and commercial properties. He has first hand experience in all aspects of an asset manager's role including leasing, tendering, refurbishment, tenant liaison and facilities management.

Portfolio Issues for Investors in the New Year

In the light of possible future interest rate changes, the apparent improvement in the economic prospects of a number of overseas countries (particularly in Asia) and the likely future sustainable earnings of a number of new participants in the information technology sector, issues to be addressed by long term investors in this year will include a review of the allocations in portfolios to high technology stocks, overseas equities and fixed interest investments.

Whilst the prospects for the Australian investment property sector will be impacted by any significant change to long term interest rates and particularly listed property stocks which had significant markdowns in their trading prices during the second half of 1999 because of the dilutory effect of a number of large capital raisings and anticipated changes in interest rates, the market for the underlying assets of any property based managed investment scheme (real property) are currently very sound because of the satisfactory level of tenant demand in most markets, the ongoing reductions in the level of vacant space in almost all of the over supplied central business district office markets and a relatively low level of speculative development in all markets. The severe distortions that were caused in investment property markets in the early 1990's were substantially caused by the massive overbuild of speculative investment properties that were often constructed on sites that had been acquired at uneconomic prices.

Whilst there appears to have been some extraordinarily high prices paid for high value residential property in most Australian cities during 1999 an over-heating of this sector generally has no impact on investment property markets because the acquisitions are almost always made by owner occupiers.

We wish you successful investing in 2000.

Investor Services Personnel

Who to contact?

If you have any queries about your investment, please contact our Manager - Investment Services, Bronwyn Risk. Bronwyn is responsible for investor liaison and the maintenance of investor records and income distributions.

For further information contact:



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